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Why Sidetracks Should be Included in the Deep Gas Royalty Relief Program

Including Sidetracks Would Help Utilize Existing Infrastructure:

In many mature fields, the existing slot locations have been used up and the only reasonable option is a sidetrack from an existing well. This situation can actually make drilling new prospects at deep depths more expensive and riskier. In the past year I have been involved with evaluating three multi field 100+ million dollar shelf divestiture packages, and I have seen several examples of development prospects that can not be realized unless a sidetrack was implemented due to the lack of available slots.

By-pass vs. Sidetrack:

Mechanically and on a cost evaluation basis, by-passes and sidetracks are hard to differentiate. Both harbor significant mechanical risks and costs, which are often independent of the distance from the original hole. Costs and risks of a sidetrack or a by-pass are effected by drilling distance, targeting angles, condition of original well, size of casing in original well, and drilling hazards such as pressure depleted reservoirs. Differentiating between the two for royalty relief will reduce or eliminate the number of wellbores available for such relief, and may encourage companies to leave behind small accumulations of hydrocarbons in order to gain royalty relief on a larger target due to a lack of available wellbores.

Included is a diagramed example of why a company would choose to leave behind proven reserves because of the differentiation of a by-pass and a sidetrack.

Reducing Up Front Exploration Costs is a Catalyst for Exploration:

Sidetracks in many cases, provide a more economical way to test ideas, and testing ideas is how new play discoveries are made. A sidetrack often reduces up front costs in a prospecting environment because many of the pieces and parts of a functional well are already in place. Although, not utilized in exploration as often as new wells due to mechanical risks, potential rate restrictions, and targeting restrictions; sidetracks are in some cases the only economic way to drill smaller prospects and test new ideas which, may lead to new deep plays.

Filling the Near Term Gap Between, Supply and Demand:

Royalty relief for sidetracks will probably not generate many multi million barrel field discoveries but could very possibly have a large positive short term effect on shelf production. Royalty relief for sidetracks would certainly encourage further development of proven and probable reserves which are currently uneconomic or marginal. Royalty relief of one or two million dollars will likely stimulate a flurry of sidetracks in mature fields where there are a plethora of idle wellbores and marginal prospects. These projects will in-turn generate new ideas and revenues to support them and help offset declines in shelf production.

Minimizing Unnecessary Relief:

A reduced royalty suspension in the range of 3-5 BCF would be enough to spur drilling of marginal prospects. Royalty losses from the relief would likely be gained back due to the number of projects that would not have otherwise been executed and those that come in larger than expected.

In Summary:

Sidetracks fall inline with many or all of the stated goals of the proposed deep gas incentive, and if given royalty relief will likely be a strong contributor to short term production goals and spur future exploration.

- Sidetracks are poised to help fill the near-term gap between supply and demand. Idle wellbores combined with small, previously identified accumulations, and royalty relief, make for quick volumes and better recovery efficiencies in existing fields.

- Sidetracks by definition will utilize existing infrastructure and prevent waste.

- Sidetracks can reduce upfront costs in exploration encouraging the identification of new plays which will offset declines in shelf production.

- A reduced royalty suspension and the five year time window will minimize unnecessary relief.

Thank You,

Regardless of your decision on including or excluding sidetracks from the royalty relief program I want to thank you for taking the time to talk with me and for doing such a great job on this new relief package.

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Sidetrack and By-pass Example

